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<b>PART B:</b>	<b>RECOMMENDATIONS TO COUNCIL</b>
<b>REPORT TO:</b>	<b>POLICY AND RESOURCES COMMITTEE</b>
<b>DATE:</b>	<b>24 SEPTEMBER 2015</b>
<b>REPORT OF THE:</b>	<b>FINANCE MANAGER (s151) PETER JOHNSON</b>
<b>TITLE OF REPORT:</b>	<b>BUDGET STRATEGY 2016/2017</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

- 1.1 This report forms the basis of preparation and planning for the 2016/2017 Council budget.

### **2.0 RECOMMENDATIONS**

- 2.1 That Council is recommended to approve the following strategy for the preparation of the 2016/2017 budget:
- (i) Proposals to be brought forward for a 1.99% increase in Council tax;
  - (ii) Increases in fees and charges to be to a maximum of 4.5% on a cost centre heading basis excluding VAT and only those charges officers recommend above this figure to be considered by the relevant policy committee;
  - (iii) Efficiencies to be maximised; and
  - (iv) The use of New Homes Bonus in line with the medium term financial plan.
  - (v) Options for service cuts to be provided. These proposals to be considered by the Resources Working Party and brought to the Policy and Resources Committee and Council.

### **3.0 REASON FOR RECOMMENDATIONS**

- 3.1 The proposals will ensure the Council sets a balanced budget for the forthcoming year with minimal impact on Council services.

#### **4.0 SIGNIFICANT RISKS**

- 4.1 The significant risk is that efficiencies cannot meet the shortfall and cuts to front line services will be required. This is mitigated through a whole Council approach to savings identification and investment proposals leading to savings through budget review, shared services and service reviews. (see risk matrix).

#### **5.0 POLICY CONTEXT AND CONSULTATION**

- 5.1 The budget strategy is a key process affecting all service delivery and linking to the Council Plan and all of the strategic plans as well as providing the means for attaining the Council's objectives and priorities.
- 5.2 Public consultation will take place to inform the budget process. Early consideration of options for cuts by members will facilitate timely and meaningful consultation.

### **REPORT**

#### **6.0 REPORT DETAILS**

- 6.1 The annual budget setting process for the Council will necessitate the identification of savings to deliver a balanced budget. The Medium Term Financial Plan (MTFP) as approved by members with the Council's Financial Strategy in February 2015 set out the projected financial position. At that time the Council set a 0% increase in its part of the Council Tax bill for 2015/2016. This was supported by additional Government grant equivalent to a 1.0% increase in Council tax.
- 6.2 Within the MTFP projection was the need to identify nearly £400k of efficiency and cuts for the 2016/2017 budget. This position was based on the following assumptions:
- Further Cuts to Government Revenue Support Grant (RSG) of 33% in 2016/2017
  - No significant Changes to the Business Rate Retention base
  - Using £338k of New Homes Bonus to support revenue
  - A Council Tax increase of 1.99% in 2016/2017
  - Pay Inflation of 1%
  - Price inflation of 3%
- 6.3 There are a number of key influences on the finances of the Council for 2016/2017 which then impact on the budgetary position. These include:
- Government grant
  - The Business Rate Retention Scheme
  - Council Tax increase
  - Income from Fees and Charges
  - Issues arising from the current year
  - Pay and price inflation
  - Revenue effects of the Capital Programme
  - Efficiencies
  - Use of New Homes Bonus and Cuts to Services/Additional income

#### **Government Grant**

- 6.4 The Council has no indication at present of the likely level of Government Grant for 2016/2017. Details of the provisional grant settlement are expected in early

December 2015. This announcement may also provide a provisional figure for 2017/18.

### **The Business Rate Retention Scheme**

- 6.5 The basic operation of the Government Support for RDC in 2015/2016 is as follows:
- The Council continues to collect Business Rates.
  - 50% is paid over to the Government.
  - Of the remaining 50%, 9% is paid to the County Council and 1% to the Fire and Rescue Service.
  - The Council will be provided with a set amount of the remainder it must pay (the Tariff) over to the Government (whatever the business rate income is). RDC keeps the rest.
  - Growth in business rates above a baseline target could lead to an increase in RDC resources.
  - In 2014/15 the Council incurred a small deficit from the business Rates Retention Scheme. Under regulations this deficit impacts on the revenue account in 2015/16, however the council has made provision within reserves in 2014/15 to accommodate this shortfall.
  - The Council continued as a member of the North Yorkshire Business Rates Pool in 2015/2016, which incorporates 5 Districts and the County Council. The benefit of forming the pool is that the levy rate on growth above target is reduced to zero. This benefit is shared between the pool members in accordance with the agreement. In 2014/15 the council saved £61k as a result of being in the Business Rates Pool.

6.6 For the 2015/2016 budget the following table sets out the relevant figures.

	<b>Government Target £m</b>	<b>2015/16 Budget £m</b>
Business Rates Income Ryedale	16.545	17.988
RDC Share (40%)	6.618	7.195
Tariff payable to Government	5.131	5.131
Sub total	1.487	2.064
Funding Target	1.487	1.487
Levy payment (50%)		0.289
Business Rate Income retained by RDC	1.487	1.775

- 6.7 For the 2016/2017 budget there are a number of factors which will change the income from the Business Rates Retention Scheme:
- Changes to the Business Rate base
  - Collection Rates for Business Rates
  - The inflation factors to be applied to the Business Rate Multiplier and tariff
  - The final position of the Business Rates Pool in 2015/2016 and it's continuation into 2016/2017.

### **Council Tax Increases**

- 6.8 The Council's MTFP is predicated on a 2% increase in Council Tax for 2016/2017. The 2015/2016 charge was £176.72 per band D property. The Council has not increased the Council tax for the last 6 years.
- 6.9 The Government confirmed the referendum limit for increases in Council Tax in 2015/2016 at 2%. The referendum principles were published on 3 February 2015.

Councils wanting to increase above this level must undertake a referendum of residents. As the cost of this would be c£70k, the Council would need to be considering a 4%+ increase in Council tax to make it worthwhile. Referendum principles for 2016/17 have yet to be confirmed.

- 6.10 A rise of 2% would equate to £3.53 per year (under 7p per week) or less for the majority of Ryedale residents. Members should note that the full Band D charge is currently £1,554.06 taking into the account the charges from the County Council, Fire and Police services. RDC therefore makes up just over 11% of the final bill. A 1% increase in the Council's charge raises approximately £36k.
- 6.11 The Council accepted the Government's Council Tax freeze offer in 2015/2016, as a result the Council received a grant equivalent to 1% of Council Tax in 2015/2016. At this point it is not known if the 2015/2016 CT freeze grant will be baselined into RSG as has been the case in previous years, or whether the Freeze Grant will be available in 2016/17.
- 6.12 Whilst Council has accepted the various council tax freeze offers from the Government so far, with the overall financial projections for the Council over the next 4 years, accepting the grant is a short term benefit but not a long term benefit, which may lead to greater service cuts. The Council took the Freeze grant in 2015-16. The following table sets out the overall effect on Ryedale finances from accepting or rejecting the offer next year (assumes no Council Tax Base Growth and 1.99% increase in all years where freeze not accepted):

	<b>Reject Offer (£000)</b>	<b>Accept 16/17 Offer (£000)</b>
2016/17	3,620	3,549
2017/18	3,692	3,620
2018/19	3,765	3,692
2019/20	3,840	3,765
2020/21	3,916	3,840
Freeze Grant		36
Total RDC Income	18,833	18,502
<b>Difference</b>		<b>331</b>
Ongoing		77

- 6.13 Therefore to Summarise:
- Over the next five years if the Council accepts the 2016/17 Freeze grant offer only, and it is not baselined, it will have £331k less Council Tax income. This money will need to come from existing service delivery in cuts/additional income. Plus every year thereafter the Council is £77k worse off than rejecting the offer.
- 6.14 Against this projection and the profile of the Council's finances up to 2021 (Annex A), which is prepared on the basis of a 2% increase in Council Tax, use of New Homes Bonus to support revenue and service cuts of £400k being required over the next two years. The officer recommendation is that the Council does not accept the Council Tax Freeze grant offer.

- 6.15 There are other issues which will impact on the Council Tax income next year:
- Growth in the Council Tax Base through new properties. An estimate for growth has been included in Annex A based on previous history
  - The Local Council Tax Support Scheme (LCST). The Council Tax base is suppressed by the cost of LCST. Further work is ongoing in this area, the cost of which is affected by the decision of the four major precepting Authorities on next years council tax rises.

### **Income**

- 6.16 It is important that the Policy and Resources Committee recommend to Council an outline target for increases in income. Clearly where officers believe that increases in line with the strategy will be counterproductive to overall income, or where there is potential scope for increasing above the target these would be considered by the Policy and Resources Committee. The recommended target increase is up to 4.5% on a cost centre heading basis excluding VAT.

### **Current Year issues (2015/16)**

- 6.17 Benefit Administration grant reduced in 2015/16 and is likely to reduce again in 2016/17.
- 6.18 Further pressure on the dry recycle income budget as the demand for recyclable materials falls along with a reduction in oil prices.
- 6.19 Ryecare have failed to win any new contracts and are unlikely to do so, although officers have been working to increase income from private lifelines.
- 6.20 Closure of Pickering TIC from September 2015.
- 6.21 Reduction in the value of reclaimable court costs relating to Council Tax and NNDR recovery.
- 6.22 Proposed changes to the delivery of the Land Charges Service, the timescale for change and the financial impact on Ryedale are still uncertain.

### **Pay and Price inflation**

- 6.23 The 2015/16 budget included provision for a 2.2% pay rise for all employees, an increase has yet to be agreed for 2016/17.

### **Revenue effects of the Capital Programme**

- 6.24 The MTFP incorporates predictions around the revenue impact of Capital Decisions, in particular the borrowing to finance the Brambling Fields junction upgrade.

### **Towards 2020**

- 6.25 Following on from the success of the One-11 (2011/12), Going for Gold (2012/13) and Round 3 (2013/14) Programmes, Officers are progressing the 'Towards 2020' programme. The purpose of the programme is to deliver £1.2m of savings by 2019/20, whilst minimising cuts to services.
- 6.26 A series of ongoing staff briefings have taken place to ensure that employees are aware of the financial projections.
- 6.27 Taking into account the savings delivered through the previous programmes and through delivering a balanced budget in 2014/15 and 2015/16, officers are clear that

finding a further £1.2m of savings is a significant challenge given the reduced base position.

- 6.28 Towards 2020 is a programme aimed at delivering savings over the next 4 years, the strategy will revolve around the following key headings:

**Our Future Workforce - Target £500k**

- 6.29 The Council has asked for expressions of interest in voluntary redundancy (VR) in line with its Redundancy Policy. A number of applications have been received, these applications have been evaluated in terms of the impact on service provision and cost. Where proposals were received that delivered savings in staff costs that could be achieved through reorganisation and service redesign which would not impact on service levels and deliver a financial saving in the 2016/17 base budget, these have been taken forward.

- 6.30 A moratorium on the filling of vacant posts has been put in place, a review of vacant posts has been undertaken by officers in line with the criteria for Voluntary Redundancy and it is the intention to remove a number of vacant posts from the establishment.

- 6.31 All of the above will be efficiencies as service levels will not be affected.

**Managing Resources - Target £490k**

- 6.32 Continuation of the Budget Review Process with Heads of Service and Service Unit Managers, involving a 'line by line' analysis of spend with the aim of delivering £100k p.a. of efficiencies. The target also includes a forecast £90k saving from the provision of the leisure contract in 2017/18.

**Service Reviews - Target £210k**

- 6.33 Taking into account all of the above, further savings will be required to balance the budget over the next 4 years should the Council need to reduce its base budget by the predicted £1.2m. Work is ongoing, with service reviews underway and Officers will work with Members, initially through the Resources Working Party. The need to make service cuts will become clearer when the grant settlement for 2016/17 is announced in December.

**2016/2017 Budget Efficiencies, Cuts and New Homes Bonus**

- 6.34 The Council has successfully reviewed all services in the preceding five years. This has seen many services reorganised and restructured as well as jobs and roles changing through investment in IT. This process over the 5 years highlighted £3.3m of savings, the majority being efficiency savings.

- 6.35 The forecast at Annex A assumes £135k of efficiencies and £250k in service cuts in 2016/17 and officers are working to achieve this level of savings. Individual work plans within the Towards2020 programme have been scheduled to initially deliver efficiencies before looking at service cuts. At this time Officers believe that the total savings requirement for 2016/17 can be achieved through a combination of the current VR process, the deletion of vacant posts and the annual budget review process.

- 6.36 The issues highlighted in this report show that there will be a budget shortfall which cannot be met by efficiencies. This shortfall can be met by using one or a combination of the following:

- Using New Homes Bonus (NHB) to support revenue
- Use of Reserves
- Cuts to services/Additional Income

6.37 The Council has performed well in earning NHB to date. The projection is that the Council will receive around £1.69m in NHB in 2016/17. Of the £3.877m earned in total in the previous 5 years, £0.734m has been used to support the revenue budget and £0.288m to support the capital programme, drawdown of NHB in line with the Medium Term Financial Plan will be required in order to ensure no further cuts in 2016/17.

6.38 The Council's 2015/2016 budget did not plan to draw on the Council's General Reserve. The Council's reserves are adequate however the use of reserves to bridge revenue budgets only provides a short term solution to financing difficulties.

6.39 Only unavoidable growth can be accommodated at this time. Within the MTFP £250,000 is included for growth items.

## 7.0 IMPLICATIONS

7.1 The following implications have been identified:

- Financial  
The financial impacts are detailed within the report.
- Legal  
There are no new legal issues around the budget strategy.
- Other  
All savings proposals will be evaluated to identify direct other implications where possible.

## 8.0 NEXT STEPS

8.1 The following table sets out the timetable for the budget process:

Resources Working Party unplanned or exceptional budget matters arising	12 November 2015
Member briefing on budget	13 January 2016
Policy and Resources Committee consider 2016/2017 Budget	4 February 2016
Full Council formally set budget and Council Tax	23 February 2016

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### Background Papers:

None.

## RISK MATRIX

Issue/Risk	Consequences if allowed to happen	Likelihood	Impact	Mitigation	Mitigated Likelihood	Mitigated Impact
Efficiency savings unable to meet the shortfall therefore service cuts will be required.	Cuts to front line services, reputational damage to Council, possible poor external inspection.	<b>5</b>	<b>D</b>	Co-ordinated approach to savings identification, looking at budget as a whole. IT investment to change working patterns and make efficiencies. Ongoing service reviews and budget review of revenue budgets. Any cuts will be fully worked up and considered by members at an early stage	<b>5</b>	<b>C</b>

Score	Likelihood	Score	Impact
1	Very Low	A	Low
2	Not Likely	B	Minor
3	Likely	C	Medium
4	Very Likely	D	Major
5	Almost Certain	E	Disaster